ADAMS INTEGRA

Winchester City Council

Winchester City Council

CIL Viability Study

Addendum Report following Stage 1 Consultation

April 2013

Contents

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Introduction

Following the publication of Winchester City Council's Preliminary Draft CIL Charging Schedule in late 2012 a number of responses were received. As some of these relate to matters covered by Adams Integra's residential and commercial viability reports, Winchester City Council has commissioned Adams Integra to respond in detail to these issues. A summary of the main issues arising out of the responses and Adams Integra comments against those issues is attached as Appendix 1 to this report.

Winchester City Council have asked for a further analysis to be taken with regard to Extra Care and Sheltered Housing where specific concerns have been raised by Hampshire County Council and other respondents who have specific responsibilities for the provision of accommodation for people in need of care and support.

General Comments on Residential CIL

The headings for these comments are taken from the responses received.

Appraisal inputs

We believe that these are clearly set out in the Methodology section. This includes assumptions in relation to:

- Sales values, through the values table at Figure 2.
- Affordable housing revenues through the table at Figure 1.
- There is discussion on our assumptions regarding the number of units, densities, accommodation levels per hectare, profit, build costs, fees and build periods.

The appraisal inputs wherever possible use industry standards and are sourced from data available in the public domain. Build costs, for instance, are informed by data from the Building Cost Information Service (BCIS). The inputs have been sensitivity tested and found robust.

Land values are too simplistic

We believe that this comment relates to our choice of threshold land values. Section 6 of the original report is devoted to this subject. We explain our assumption that new sites are likely to come from a range of existing uses, from agricultural to residential. We apply a range of values for the employment uses, relating to different locations; we have tested different rates to the residential uses. The following points are of relevance:

1. Development sites from existing residential uses might take place on garden land, or the whole house and garden might be redeveloped. The existing use values for the two scenarios could be very different.

2. The Council need to consider the weight that should be given to the viability of sites on existing residential uses. We noted from the Council's SHLAA that there was a relatively small part of the overall supply to be sourced from this typology of site. An assessment of Winchester's most recent SHLAA shows, for instance, that about 5% of the anticipated supply on windfall sites will be sourced from sites in existing residential use. Therefore, existing residential sites are not anticipated to form a significant element of the housing supply, upon which the Council will rely.

Property prices do not reflect true values

We think this is reference to the discount that we apply to asking prices. As part of our sales research, we considered the likely achieved value against asking prices and this equated to around 3-4% reduction. As part of more recent sales research for other studies it has become apparent that developers do sell for up to 5-6% from the asking price. This is particularly the case early in the year, when sales during the Christmas and January periods are likely to have been slow. We have, therefore, undertaken some sensitivity work around this to assess the viability impact of a greater discount, as suggested by the response but have found that the increased reduction in achieved prices of 1% or 2% is not critical to the CIL rates recommended.

In this connection, we have seen a number of reports of greater confidence and more positive sentiment about the housing market, particularly in the South–East. Our current sales research shows that in Winchester City Council values are showing signs of rising and this has offset the impact of a greater discount to asking prices.

Not enough evidence to justify build costs

Our conclusions on build costs come from three different sources.

- First, we had responses from the questionnaires to developers which specifically requested information on local experience of build and other costs.
- Second, as mentioned above, we consult with BCIS, being a source of build costs that is widely recognised in the development industry.
- Thirdly, we then assess these costs against our own experience of the area and of other studies.

It is not possible to provide greater detail of developers' own experiences of build costs, since they are currently not willing to divulge such information outside the questionnaire responses referred to above. Furthermore, we would need to satisfy ourselves that any information excluded abnormal costs that would only be experienced in specific circumstances.

Build cost and specification

It is likely that developers will vary the specification of a house or flat, depending upon its location. We have assumed that the external specification will remain reasonably constant, in terms of build cost, between one location and another. In practice the specification might change in, for example, conservation areas, but we would need evidence of a reliance on a significant supply of houses from such locations to include them in the study. With regard to internal specification, we did reduce the build cost by £50 per sq.m for VP3, compared to VP4, to reflect a potentially lower specification in a lower value area. Sensitivity analysis shows that percentage changes in build costs have a lower impact on viability than, say, percentage changes in sales values.

Adverse ground conditions, etc. not taken into account. We do, in fact, make an allowance for these in our appraisals. We take the view that any site will require some work before building can commence. Our appraisals allow for this under an 'abnormals' heading, being those that we consider to be inevitable. Amounts will vary, based on fixed sums that we apply per unit but, as an example, appraisals would allow £2,500 per unit for a 20 unit site and £2,000 per unit for a 100 unit site.

Levels of contingency, fees, etc.

In terms of the fees, the appraisals do allow for more than just the consultants' costs of 5%. We also allow planning fees, survey costs and insurance fees, which would typically lift the percentage to 8/9% of build cost.

Lack of viability buffer

We believe that this issue relates particularly to Appendix 3, where we are making judgements about the viability of a number of scenarios under each CIL level, at different value points. The viability conclusion, expressed by the red, orange and green colours, takes into account the range of outcomes, whilst also recognising the need for a buffer. We are considering all scenarios under a particular value point against the viability thresholds and are making a judgement as to viability, taking into account a buffer. Furthermore, we would suggest that the buffer should be less applicable in a weak market, where it is likely that sales values will rise to enhance the buffer. It would be fair to say that the buffer is more necessary in a strong market to cushion a fall in prices than in a weak market where uplift in sales values is more likely. Indicators such as the Nationwide index, Land Registry trends and others suggests that in the Winchester and South-East region generally sales values show a rising trend; we do NOT reflect this in our viability appraisals but the trend should be noted in terms of the buffer.

Extra Care Housing and its Use Class C2/C3

Extra care housing is often defined as "purpose built accommodation in which varying amounts of care and support can be offered and where some services are shared".

The key feature of any extra care scheme is that the design, layout, facilities and support services available enhance the life of the occupier. Facilities can include:

- On site carers
- 24 hour cover
- Ability to provide hot meals daily
- Enhanced bathing and toilet facilities

The amount of care provided and the level of facilities needed is often a determining factor as to whether the extra care facility will sit within class C3 (dwellings) or class C2 (institutional) of the Town and Country Planning (Use Classes) Order as amended.

If the occupiers can live in independent flats and receive care either into their home which may be designed to be adaptable to their changing needs and there are some communal facilities then a C3 use is appropriate.

Where perhaps more concentrated needs are required to be met and consequently there are more intensive shared facilities the actual accommodation may not be designed to allow fully independent living within the unit, hence the scheme could sit within Class C2.

The residential care homes market is split almost equally between those that are used, and hence paid for by the public sector, and those that provide for private patients and income.

It is our view that public sector provision whether it be providing extra care in a C2 or a C3 scheme will benefit from the affordable housing exemption as it is being designed and developed to meet an identified housing need and therefore no CIL will be charged. We would expect some form of protection to be afforded through S106 agreements to schemes which are developed solely for public sector use so that they remain as public/ social provision.

We have considered C3 Extra care private sector developments and note that they exhibit similar viability dynamics to that of sheltered accommodation where schemes are built for sale and the independent units are sold with support paid for through a service charge and top up charges for more intensive care. We understand that there are issues with this type of development such as potentially slower sales rates, the need to complete schemes before sales can take place, potentially higher build costs and recognise that these issues could impact on the return to the developer. On the other hand this form of development makes very efficient use of land and there may be a premium attached to sheltered housing schemes and potentially these issues could balance each other out.

We have undertaken some modelling to cover this aspect particularly in terms of the values associated with sheltered development within C3 use class. We have found from the evidence available a significant premium attached to the values generated by sheltered housing when compared to similar apartment developments unencumbered by an age restriction. Our modelling shows that the premium on sales values compensates for the concerns expressed above about the particular characteristics of this form of development.

We have undertaken sensitivity analysis in this area, at this stage we see no overriding reason to amend the CIL charging recommendation in order to treat sheltered/extra care housing differently from the overall C3 charge.

In terms of Extra Care within C2 we have modelled provision in accordance with the methodology we use to assess the impact of CIL on cost and revenue, in this case we have mirrored the testing undertaken to inform the Fareham Borough Council CIL C2 assessment but with Winchester economic dynamics within our appraisal.

The modelling shows (see Appendix 2) that with the current state of the market, C2 Extra Care proposals appear very marginal and show no surplus able to support a CIL charge. We are therefore NOT recommending a CIL charge against C2 Extra care.

For all other C2 and C2a uses, the occupation generally does not generate revenue and is usually funded by public subsidy. Even when services within these categories are contracted out, they are usually subsidised by public funding. Therefore we consider that a £nil charge rate is appropriate.

No change to the Charging Schedule is therefore recommended.

Retailers' Comments

Responses were received from representatives of supermarket retailers Asda and Sainsbury's. A summary of their comments is made in the Summary schedule in Appendix 1.

In particular Thomas Eggar, on behalf of Asda Stores Ltd., comment on the lack of an allowance in the Viability Appraisals for s. 106 costs. This is because the current system of s.106 contributions is being replaced by the CIL charge which will be used to fund the gap for the specific Regulation 123 list of infrastructure items that WCC have identified. DCLG Guidance [December 2012] states in paragraph 85 that:

The Government expects charging authorities will work proactively with developers to ensure they are clear about charging authorities' infrastructure needs and what developers will be expected to pay for through which route. This is so that there is no actual or perceived 'double dipping', with developers paying twice for the same item of infrastructure.

Therefore, unlike multi-unit residential development where contributions are sought to fund community facilities such as open spaces, including a CIL charge in the viability appraisals for non-residential development is sufficient and it would be inappropriate to make further deductions from the Gross Development Costs for any site-specific contributions. There may be a requirement for a contribution through s.106 or s.278 agreements for a particular site because of that site's anomalies but these should not be applied on all schemes. Also the charges may be going towards the same infrastructure items, hence construed as 'double dipping' or may not be appropriate for other sites where such contributions are not required.

Furthermore with the Supermarket modelling a total of 16.5% of the construction costs are allowed for under professional fees, contingency and external works which is considered sufficient to cover planning fees and other site specific additional costs.

Comment is made about little weight being given to the economics of conversion projects. Consideration has been given to these types of project. Generally conversion costs are less than new build costs where it is usual that the main shell of the structure including foundations are reused. Whereas the rents and yields will usually be similar to new build values, the outcomes will generally produce a larger surplus. Therefore, it is considered that conversion schemes should be able to afford the same CIL charge as for a new build scheme.

WYG Planning and Environment make comments on behalf of Sainsbury's Supermarkets Ltd. They have questioned the viability evidence for differential charging zones. A further appraisal to support the distinction between Winchester town centre comparison retail development and 'out of centre' comparison retail development (excluding retail warehousing) is included in Appendix 2 to support the findings of the original study.

In essence rental values and yields generate a much lower Gross Development Value from schemes outside the 'prime' retail areas and consequently a much lower or no surplus able to support a CIL charge. This is because retailers are able to afford higher rents in the town centre due to higher foot fall and hence larger revenues. Consequently investors consider prime retail property a better investment, inter alia, due to the higher level of occupier demand.

WYG further comment on the 'ambiguous differentiation' between retail warehouses that specialise in retailing bulky and non-bulky goods. The reference to bulky goods simply reflected the fact that many retail warehouses specialise in such sales, but a clearer definition of a Retail Warehouse is proposed to overcome this concern as follows:

Retail Warehouses
Defined as a non-food retail store that displays and sells comparison goods, such as bulky household goods (including carpets, furniture, electrical and DIY items), clothing, and recreational goods, within large format shed like buildings, often (but not necessarily) on one level, with associated adjacent car parking so as to cater mainly for car-borne customers.

Summary

We have considered the main issues raised in the first consultation. We have agreed with the Council that it was necessary to undertake further modelling to test some of our assumptions against those of respondents. It is our current view that we should be recommending no changes to the CIL rates recommended, this is our advice to the Council at this stage.

Appendix 1

Preliminary Draft Charging Schedule

Summary of Responses

Concerns and Objections				
Ref.	**Respondent**	**Agent**	**Summary**	**Adams Integra Comment**
R1	Asda Stores Limited	Thomas Eggar	• Proposed charge of £120 per sq m. in Zones 2 and 3 are "likely to be too high to encourage retail development". • Winchester's role in the retail hierarchy "will be undermined by the proposed charge of £120 per sq m." • Viability evidence does not make "sufficient allowance" for S106 payments and cost of obtaining planning permission, "artificially inflating the benchmark land values". • "Large retail developments will also bear the expensive costs of S106 Agreements…whereas the small retail developments are likely to escape these". • Viability evidence does not take the economics of conversion schemes into account . • The Council's evidence does not comply with the recent CLG CIL guidance (14 December) in respect of the amount of S106 contributions raised.	➢ The CIL rate proposed is at a rate that is considered not to harm viability or discourage development. ➢ The respondent does not challenge the appraisal figures, rather the principle. ➢ Including s.106 costs would be considered 'double dipping' and contrary to para. 85 of DCLG Guidance [Dec 2012]. ➢ The amount of the CIL charge will be proportional to the size of the development. ➢ The viability is based on notional sites. Conversions may have reduced (or no) CIL charge depending on whether there is any net increase in floorspace. ➢ See further comment in the addendum report. No change needed to Schedule

R2	Sainsbury's Limited	WYG	• "The proposed distinction between convenience and comparison goods (outside of Zone 2) is unsupported by the Viability Study". • "Differentiation between retail warehouses specialising in bulky goods and non-bulky goods is "an ambiguous differentiation also unsupported by the viability studies".	➢ A further appraisal for out of centre Comparison Retail is included in Appendix 2 to show the distinction from the Winchester Town Centre Comparison Retail findings. ➢ There is no intention to define retail warehousing solely on the basis of bulky and non-bulky goods. It is a single charge for all types of retail warehousing. See revised definition proposed in addendum report. No change needed to Schedule
R3	Housebuilders' Consortium (Bloor Homes, Persimmon Homes, Hazeley Developments, McCarthy & Stone	Savills	• "It is not clear what appraisal inputs have been used to derive the CIL levels proposed" (para. 1.11) . • Land values used in viability appraisals "are too simplistic and do not reflect different areas and forms of development within the district" (para. 5.11). • "Property prices indentified within the report do not reflect the true values within the district" (para.5.13). • "Sensitivity analysis should be provided to show a range of values" (para, 5.15). • "Not enough evidence has been provided to justify the proposed levels" of build costs (para. 5.17). • "There does not appear to be any consideration given to the relationship between sales values, specification and build costs" (para. 5.18). • "Adverse ground conditions, contamination or demolition have not been accounted for within the report"	Appraisal inputs are not clear. Disagree - they are all set out in the Methodology section. Land values are too simplistic. We differentiated between high and low value for employment uses, but not for other uses. We have undertaken some sensitivity testing related to high and low values for residential uses, on the basis that agricultural values will not vary that much. Property prices don't reflect true values. Savills have commented on the level of discount that we adopted from asking prices. We have done some sensitivity testing around this. Sensitivity analysis should be provided. This has been done, as above. Build costs not sufficiently justified. We reduced the costs in VP3 by £50 per sqm over VP4 to reflect a likely variation in specification. In practice this would mean a slightly lower specification to such items as kitchens and bathrooms, for

			(para. 5.20). • Concerns over levels of contingency, professional fees, finance, and Code Levels costs, and developers' profit (paras. 5.21-5.28). • No evidence to support assumed land values (para. 5.36). • The lack of any allowance for a viability buffer…is a major concern" (para. 5.39). • Confirmation required on correct figure for funding gap and on the "mechanisms for delivery (CIL, S106 etc) as per the recent CLG CIL guidance (para. 1.14).	example. It would mean a build cost difference of £5,000 on a 100 sq.m house. Adverse ground conditions, etc. not taken into account. We do make allowances for what we call "site preparation" in the appraisals. Contingency, fees etc. We need to point out that our fees percentage excludes allowances for surveys, planning fees and insurances, for which separate allowances are made. Land Values Not agreed, there is significant evidence to support our appraisal inputs. Lack of viability buffer We take into account a buffer when we are assessing viability under each value point in the tables of appraisals. The buffer should be less applicable in a weak market, where it is likely that sales values will rise to generate the buffer. In a strong sales market, you might say that the buffer is more necessary to cushion a fall in prices. No change needed to Schedule
R4	McCarthy & Stone Retirement Lifestyles Limited	The Planning Bureau Limited	• The proposed residential rate "does not differentiate between houses, flats, and specialist accommodation for the elderly". • The viability assessment did not include a development scenario for sheltered housing, despite the significant differences between this form of accommodation and standard market housing".	Regarding retirement developments, we would not consider them as a special item. Build costs will be higher and sales rates will be lower, so there will possibly be viability issues in specific instances. However, this typology of scheme does make very efficient use of land and our sensitivity analysis shows a premium on the values attributable to sheltered housing over and above general market apartments in similar locations, to compensate for some of the additional costs.

			• "We suggest either a bespoke CIL rate is prepared for sheltered housing and other forms of specialist accommodation, or that a CIL levy is restricted to the saleable areas of these forms of development.	No change needed to Schedule
R4	Hampshire County Council		• "The absence of any viability assessment of Extra Care housing" is noted". • Residential schemes "in accordance with the requirements and guidance for Extra Care housing, should be charged at a rate of £0 per sq.m on grounds of viability." • "It is likely that some Extra Care development will partly within Class C3 and partly within C2" • "The decision to charge £0 for all types of development within Zone 1… raises concerns".	See addendum report No change needed to Schedule
R5	Bryan Jezeph Consultancy Limited		• " We believe that nursing homes and retirement schemes including assisted living should have a lower figure of £60 per sq m. as in the case of Fareham" • "We do not believe that the proposed CIL complies with the emerging advice from Government".	See addendum report. No change needed to Schedule
	MOD		Raise concerns that Service Family Accommodation would be restricted if CIL charged on their development. With provision normally by RP and meeting a proven housing need MOD assume this accommodation would	We agree that SFA if provided to meet a proven housing need could be classified as affordable housing and therefore exempt from CIL. However it would be necessary for provision of SFA as affordable accommodation to be secured by a suitable

			be exempt.	agreement. No change needed to Schedule
	Hampshire Chamber of Commerce		Need to be careful that CIL does not preclude development across the City and particularly that it does not force development into cheaper areas.	The issues raised by HCOC are, in the main covered by our Reports, however it is important to note that viability differs between Local Authority areas because of the imposition of different planning policies and, in addition, CIL replaces site-specific negotiations which currently secure necessary infrastructure. Giving certainty to the development industry by a set CIL charge should (according to the Government) assist developments coming forward. No change needed to Schedule

Appendix 2
Commercial Development Appraisal

Use Class: Out of Centre Comparison Retail

DEVELOPMENT VALUE			
Rental Income		£ per sq ft	£ per annum
Rent - area x rate per sqft	2,000	30	£60,000
Total Rental Income	2,000		£60,000
Rent free/voids (years)	2	0.8653	£51,918
Total revenue, capitialised (incl all costs)		7.5%	£692,240
Gross Development Value			£692,240
Less Purchaser's Costs	5.75%	£39,804	£652,436

A

Surplus to fund CIL - sensitivity

Rent per sqft	£20	£30	£40
Yield			
7.0%	-£339,792	-£121,887	£96,018
7.5%	-£368,817	-£165,425	£37,966
8.0%	-£394,214	-£203,521	-£12,828
8.5%	-£416,624	-£237,135	-£57,647

DEVELOPMENT COSTS			
Development Costs			
	Area	£ per sq ft	Total
Demolition Costs	1,000	£15	£15,000
Building Costs		£110	£220,000
Area	2,000		
Contingency		7%	£15,400
External Works		3.00%	£6,600
Professional Fees		12%	£28,200
Community Infrastructure Levy		0	£0
Total			£285,200
Disposal Costs			
		%	Total
Letting Agent's Fee (% of Rent)		15%	£9,000
Agent's Fees (on capital value)		1%	£6,922
Legal Fees (% of capital value)		0.75%	£5,192
Total			£21,114
Interest on Finance			
	Months	%	Total
Total Development duration	12		
Loan arrangement fee		1%	£2,852.00
Interest on Construction Costs	12	7.0%	£21,442
Total			£24,294
Profit			
		%	Total
oper's Profit on Total Development Cost		20%	£66,122
Total Development Costs			£396,730

B

LAND VALUE			
	Months	%	Total
Land Surplus			£295,510
Stamp Duty		4%	£11,820
Agent's Fees		1.25%	£3,694
Legal Fees		0.50%	£1,478
Total			£16,992
Interest on land finance	24	7.00%	£19,496
Total			£36,488
RESIDUAL LAND VALUE			£259,022

A-B

C

Existing Site Value				
	%			
Assumes existing space is % of new	50%	1,000		
Rent per sq ft		£40		
Rental income per annum		£40,000		
Rent free/voids (years)		3	0.7938	£31,752
Total revenue, capitalised (incl all costs)			8%	£396,900
Refurbishment costs (per sq ft)		£20	£20,000	
Fees		7%	£1,400	
Total			£21,400	
Purchaser's Costs		5.75%	£21,794	
Total Costs			£43,194	
Existing Site Value				£353,706

D

SV incl Landowner Premium	20%	£70,741	£424,447	E
Surplus available to fund CIL			-£165,425	C-E

Appendix 3
Commercial Development Appraisal

Use Class:	Care Home

DEVELOPMENT VALUE				
Capital Value				
		Area sq m	£	
		2,550		
No of Rooms	60			
Capital value per room			£90,000	
Total Capital Value				£5,400,000.00
Gross Development Value				£5,400,000
Less Purchaser's Costs		5.75%	£310,500	£5,089,500	A

DEVELOPMENT COSTS			
	Area	£ per sq m	Total
Demolition Costs	1,500	£53	£79,500
Building Costs		£1,302	£3,906,000
Area	3,000		
Contingency		5%	£195,300
External Works		3.00%	£117,180
Professional Fees		10%	£398,550
Community Infrastructure Levy		0	£0
Total			£4,696,530
Disposal Costs			
		%	Total
Agent's Fees (on capital value)		1%	£54,000
Legal Fees (% of capital value)		0.75%	£40,500
Marketing		1.00%	£46,170
Total			£94,500
Interest on Finance			
	Months	%	Total
Total Development duration	24		
Loan arrangement fee		1%	£46,965
Interest on Construction Costs		7.0%	£335,372
Total			£382,337
Profit			
		%	Total
loper's Profit on Total Development Cost		25%	£1,293,342
Total Development Costs			£6,466,709	B

LAND VALUE			
	%	Total	
Land Surplus		-£1,066,709	A-B
Stamp Duty	4%	-£42,668	
Agent's Fees	1.25%	-£13,334	
Legal Fees	0.50%	-£5,334	
Total		-£61,336	
Interest on land finance	7.00%	-£70,376	
Total		-£131,712	
RESIDUAL LAND VALUE		-£1,198,421	C

Existing Site Value					
	%				
Assumes existing space is % of new	50%	1,500			
Rent per sqm		£85			
Rental income per annum		£127,500			
Rent free/voids (years)		3	0.7938	£101,210	
Total revenue, capitalised			9%	£1,124,550	
(incl all costs)					
Refurbishment costs (per sqm)		£270	£405,000		
Fees		7%	£28,350		
Total			£433,350		
Purchaser's Costs		5.75%	£64,662		
			£498,012		
Existing Site Value				£626,538	D

Site Value incl Landowner Premium	20%	£125,308	£751,846	E
Surplus available to fund CIL			-£1,950,267	C-E

Surplus to fund CIL - sensitivity

Capital value per room	£80,000	£90,000	£100,000
Build Costs			
£1,202	-£2,071,666	-£1,413,359	-£755,051
£1,302	-£2,608,574	-£1,950,267	-£1,291,960
£1,402	-£3,145,483	-£2,487,176	-£1,828,869
£1,502	-£3,682,392	-£3,024,085	-£2,365,777

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